



Arizona Department of Education

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Average Daily Membership Audit Report Willcox Unified School District Fiscal Years 2014, 2015 and 2016

Report Number—17-16
December 16, 2016



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Diane Douglas
Superintendent of
Public Instruction

December 23, 2016

Kevin Davis, Superintendent / Business Manager
Willcox Unified School District
480 N Willcox Ave
Willcox, AZ 85643

Dear Mr. Davis,

The Arizona Department of Education Audit Unit has conducted an audit of the Willcox Unified School District (District) Average Daily Membership (ADM) for Fiscal Years 2014, 2015 and 2016. The purpose of the audit was to address whether the District properly reported student enrollment to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District did not accurately report some student FTE's for fiscal years (FY) 2014 and FY2016, which resulted in the District's ADM being overstated by 1.83. As a result, the District was overfunded by \$19,185.60, which the District must repay to ADE.

We appreciate the cooperation and assistance provided by the District's administration during the course of the audit.

Sincerely,

A handwritten signature in cursive script that reads "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Willcox Unified School District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2014 through FY2016.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADE may conduct ADM audits, which help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, the audit will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction (Superintendent) regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. The audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent allow a correction to be made partly in the current budget year and partly in the following budget year.

In addition, ADE will adjust the District’s budget capacity if required. ADE School Finance Memorandum 13-011 summarizes the budget capacity adjustment authorized by statute:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error; within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

District information—The District is located in Willcox, Arizona and maintained 3 schools, composed of one high school, one junior high school, and one elementary school, during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

Table 1

**Willcox Unified School District
Total Students, Revenues and Expenditures
FY2014, FY2015 and FY2016
(Unaudited)**

	FY2014	FY2015	FY2016
Students Enrolled	1,191	1,148	1,100
Number of Teachers	78	66	66
Revenue			
Local	\$ 3,615,991	\$ 5,251,157	\$ 5,026,137
County	323,492	306,068	288,611
State	3,552,353	4,456,652	4,263,203
Federal	1,748,344	1,760,762	1,088,014
Total Revenues	<u>9,240,180</u>	<u>11,774,640</u>	<u>10,665,965</u>
Total Expenditures	<u>\$ 10,552,011</u>	<u>\$ 11,204,925</u>	<u>\$ 10,114,376</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2014, FY2015 and Annual Financial Report of the District for FY2016.

SCOPE AND METHODOLOGY

The audit focused on whether the District accurately reported its data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for FY2014, FY2015 and FY2016.

To conduct this audit, auditors used a variety of methods, including examining District and SAIS records for enrollment. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically:

- ***Instructional hours*** – Auditors reviewed the bell schedules and calendars for each of the District’s schools for FY2014, FY2015 and FY2016. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited. No finding was identified for this area.
- ***Enrollment data***— Auditors compared the District’s student management system to SAIS and identified 129 of 1,285 students in FY2014, 122 of 1,211 students in FY2015 and 125 of 1,245 students in FY2016 for a total of 376 students for further evaluation. Auditors reviewed these 376 student profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to SAIS to determine if the entry and exit date was correct. When the audited entry or exit dates were different from the reported dates or the audited FTE differed from the funded FTE for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Special Education Data (SPED)***—Additionally, for the students where an ADM adjustment was made, auditors determined whether the student had also been funded for a special education category. Auditors calculated the special education adjustment based on the SPED category and service code and applied this adjustment to each respective student’s recalculated ADM and made appropriate adjustments to the funded ADM.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by SAIS. No findings were identified for this area.

The Audit Unit expresses its appreciation to Willcox Unified School District’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENTS' FTE RESULTING IN AN OVERFUNDING OF \$19,185.60

The District inaccurately reported the FTE status for seven students for two of the three fiscal years (FY) audited. Specifically, auditors found that all seven students were reported with an incorrect FTE status. Additionally, of these students, two carried additional Special Education (SPED) weights. As a result of these errors, the District's ADM was overstated by 1.83 for the three fiscal years audited. Due to the inaccurate FTE statuses, the District was overfunded by \$19,185.60 in Basic State Aid. According to A.R.S. § 15-915, the District must repay to ADE.

The District Inaccurately Reported Some Students' FTE

Due to the erroneous calculation of FTE, the District misapplied the number of courses it took for a student to achieve a 1.0 FTE. The FTE calculations were based on daily hour estimations of 4 courses rather than an annual calculation of hours, which determined that students needed to take 5 courses to meet the requirements for generating a 1.0 FTE.

Auditors determined that the District inaccurately reported seven students' FTE to ADE, which resulted in the District's ADM being overstated by 1.83. According to A.R.S. § 15-901¹, a high school student must be enrolled in at least 720 instructional hours annually in an instructional program of at least four or more subjects, each of which, if taught each school day for the minimum number of days required in a school year would meet a minimum of 123 hours annually. However, the District did not always adhere to these requirements. Specifically, seven students were reported to SAIS as full-time students without having met the criteria established in Statute, which resulted in the District's ADM being overstated by 1.83.

¹ A.R.S. § 15-901 states that full-time student means: For high schools, a student enrolled in at least an instructional program of four or more subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty-three hours a year, or the equivalent, that meets for a total of at least seven hundred twenty hours for a one hundred eighty day school year. The average daily membership of a full-time high school student shall be 1.0 if the student is enrolled in at least four subjects that meet at least seven hundred twenty hours for a one hundred eighty day school year. Fractional student means: For high schools, the average daily membership of a part-time high school student shall be 0.75 if the student is enrolled in an instructional program of three subjects that meet at least five hundred forty hours for a one hundred eighty day school year. The average daily membership of a part-time high school student shall be 0.5 if the student is enrolled in an instructional program of two subjects that meet at least three hundred sixty hours for a one hundred eighty day school year. The average daily membership of a part-time high school student shall be 0.25 if the student is enrolled in an instructional program of one subject that meets at least one hundred eighty hours for a one hundred eighty day school year.

Of the seven students with adjustments, two students were reported with a SPED category, whose associated SPED adjustment resulted in an immaterial ADM misstatement. As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 1.83 for the three fiscal years audited.

Table 2

**Willcox Unified School District
ADM Adjustments Due to FTE Status Errors
FY2014, FY2015 and FY2016**

	FY2014	FY2015	FY2016	Total
Incorrect FTE	0.85	-	0.98	1.83

Source: Auditor analysis of District records and SAIS data for FY2014, FY2015 and FY2016.

**The District Must Properly Calculate
And Report Student FTE Status**

The District can likely avoid errors in the future by ensuring it properly evaluates the bell schedules and calendars each year to ensure each period of instruction intended to be counted toward a student’s FTE status meets the requirements prescribed in Statute and ADE Guidelines. Further, the District must calculate the annual instructional hours of each program of study to accurately identify the number of courses required to generate a 1.0 FTE.

**The District Was
Overfunded by \$19,185.60**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate FTE data reported to ADE for the three fiscal years audited. The FTE data errors reported by the District resulted in its ADM being overfunded by \$10,118.13 in Basic State Aid. However, statutory growth formulas applied to the District require that this amount be increased by \$9,067.47. As a net result, the District was overfunded by \$19,185.60, which ADE must recover. Table 3 (see page 6) shows the ADM and funding adjustments required for the District for the three fiscal years audited.

Table 3

**Willcox Unified School District
ADM and Funding Adjustments Due to
FTE Status Errors
FY2014, FY2015 and FY2016**

Fiscal Year	ADM Adjustment	Funding Adjustment	Growth	Net Funding Adjustment
2014	0.85	\$ 4,171.26	\$ 3,679.85	\$ 7,851.11
2015	-	-	-	-
2016	0.98	5,946.87	5,387.62	11,334.49
Total	1.83	\$ 10,118.13	\$ 9,067.47	\$ 19,185.60

Source: Auditor analysis of District records and SAIS data for FY2014, FY2015 and FY2016.

Recommendations:

1. The District must comply with A.R.S. § 15-901 when calculating and reporting FTE status.
2. The District must evaluate the total annual instructional hour provision of each qualifying course, accounting for all bell schedules, to appropriately determine the number of courses necessary for a student to generate a 1.0 FTE.
3. ADE must recover \$19,185.60 in Basic State Aid from the District due to FTE status errors.

ADM and Funding Adjustments

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to both budget capacity and state aid. ADE’s School Finance Unit’s Memo 13-011 informs LEAs of these statutory requirements:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Budget capacity adjustment required—The District must adjust its budget capacity for the three fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE’s School Finance Unit once the audit is finalized.

Basic State Aid adjustment of \$19,185.60 required to be repaid to ADE—Auditors identified an overall funding adjustment of \$19,185.60 for the three fiscal years audited due to incorrect FTE and inaccurate enrollment data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2014, FY2015 and FY2016.

Table 4

**Willcox Unified School District
ADM and Funding Adjustments
FY2014, FY2015 and FY2016**

	FY2014		FY2015		FY2016		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Funding Adjustment	<u>0.85</u>	<u>\$ 7,851.11</u>	=	<u>\$-</u>	<u>0.98</u>	<u>\$ 11,334.49</u>	<u>\$ 19,185.60</u>